

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 H-01 L-03 AGRE-00 SSM-03 PA-01
ACDA-12 DOE-15 SOE-02 /126 W
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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 7718
INFO AMCONSUL ALEXANDRIA

C O N F I D E N T I A L CAIRO 10272

E.O. 11652: GDS
TAGS: ECON, EFIN, EC
SUBJ: PRICE HIKES MAY WELL CONTINUE

REF: CAIRO 9907

1. IN LINE WITH COMMENTS REFTEL, GOE MIN ECON HAS PASSED TO US WEEK APRIL 3 INTERNAL LIST OF PLANNED INDUSTRIAL COMMODITIES TO BE AFFECTED BY PRICE INCREASES IN CONJUNCTION WITH IMF'S ECONOMIC REFORM PROPOSALS. AT INITIAL GLANCE, JUMPS OF 100 PER CENT FOR WOOL FABRIC AND 65 PER CENT FOR COTTON YARN APPEAR SUBSTANTIAL, BUT INITIAL IMPACT WILL BE FELT BY MANUFACTURERS AS OPPOSED TO CONSUMER. READY MADE GARMENTS, PURCHASED BY EGYPTIAN LOWER-MIDDLE CLASS AND/OR EXPORTED TO EAST BLOC COUNTRIES, WILL INCREASE 60 PER CENT--RISING FROM AN AVERAGE UNIT PRICE OF LE 1.91 TO AN AVERAGE UNIT PRICE OF LE 2.67. OTHER INTERMEDIATE TEXTILE ITEMS WILL ALSO RISE ON AN AVERAGE OF 30 PER CENT. SHIFTS ARE PLANNED IN CHEMICAL INDUSTRY AS WELL WITH MOST SIGNIFICANT INCREASES IN SODIUM CARBONATE (64 PER CENT) AND PAINT COMPOUNDS (23 PER CENT).
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PER CENT).

2 DURABLE CONSUMER ITEMS AND LUXURY GOODS ALSO HIT. PRICES OF MOTOR BUSES AND TRACTORS WILL RISE 27 AND 34 PER CENT RESPECTIVELY. PRICES OF ITEMS WHICH HAVE ALREADY BEEN INCREASED INCLUDE REFRIGERATORS WHICH ROSE 24 PER CENT; WASHING MACHINES 31 PER CENT; AND TELEVISION SETS

22 PER CENT. COMPLETE LIST OF AFFECTED PRICES BEING
POUCHED NEA/EGY.

3. COMMENT: WHILE MANY PRICE INCREASES APPEAR SIZEABLE,
PRINCIPAL EFFECT WILL BE ON MANUFACTURERS
(MOST COMMONLY PUBLIC SECTOR COMPANIES) WHO HAVE IN PAST
OFTEN BENEFITTED FROM INTERNAL SUBSIDIES ON PRIMARY AND
INTERMEDIATE COMMODITIES REQUIRED IN PRODUCTION. IT IS
AGREED THAT INCREASED PRODUCTION COSTS MAY BE PASSED ON

TO CONSUMERS BUT EFFECT ON RETAIL PRICES WILL BE SOME-
WHAT DELAYED AND MITIGATED BY EXISTING STOCKS AND FACT
THAT PRICES OF OTHER INPUTS WILL NOT RISE. MOREOVER, ,
MAJORITY OF LOCALLY MANUFACTURED GOODS AND CERTAINLY
BULK OF DURABLE ITEMS (E.G., TV SETS, REFRIGERATORS)
ARE SNAPPED UP BY URBAN MIDDLE CLASS, MANY OF WHOM HAVE
BENEFITTED FROM RECENT UPSURGE IN PRIVATE SECTOR SALARIES
DIRECT ECONOMIC IMPACT ON LOWER CLASSES MAY WELL BE
MARGINAL; BUT WE CANNOT DISCOUNT PSYCHOLOGICAL EFFECT
WIDESPREAD PUBLICITY OF PRICE INCREASES MIGHT HAVE.
PUBLIC SENTIMENT AGAINST INFLATION IS RISING (WITNESS
LAST WEEK'S PA DEBATE) AND STRONG POLITICAL OPPOSITION
AGAINST PLACING FURTHER ECONOMIC BURDEN ON MASSES IS
EVIDENT DESPITE ECONOMIC MINISTERIAL GROUP'S DESIRE TO
COOPERATE AS MUCH AS POSSIBLE WITH IMF'S SUGGESTIONS FOR
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INTERNAL ECONOMIC REFORM. EILTS

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NNN

Message Attributes

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